



The role of public enterprises in economic development in Nigeria



Happiness Ozioma Obi Anike^a
Chikodili Nkiruka Okafor^b
Nnaemeka Beneth Udejinta^c

Article history:

Received: 8 September 2016

Accepted: 30 January 2017

Published: 31 March 2017

Keywords:

*economic development;
enugu state;
Nigeria;
protecting public interest;
public enterprises;*

Abstract

The study focuses on the role of public enterprises in economic development in Nigeria. The study sought to ascertain the role of public enterprises in improving the standard of living in Nigeria, to determine the nature of the relationship between Public enterprises and employment generation, to ascertain challenges encounter by public enterprises in contributing to national development. The study had a population size of 340, out of which a sample size of 246 was realized using Taro Yamane's formula at 5% error tolerance and 95% level of confidence. The instrument used for data collection was primarily questionnaire and interview. Out of 246 copies of the questionnaire that were distributed, 230 copies were returned while 16 were not returned. The survey research design was adopted for the study. The hypotheses were tested using the Pearson product moment correlation coefficient, Chi-square, and simple linear regression statistical tools. The findings indicated that Public enterprises significantly improve standard of living in Nigeria ($r = 0.703$; $t = 29.976$; $F = 898.558$; $p < 0.05$). There is a positive relationship between Public enterprises and employment generation ($r = .596$, $P < .05$). Corruption, defective capital structures and mismanagement are challenges encounters by public enterprises in contributing to national development ($X^2_c = 68.270 > X^2_t = 9.49$, $p < 0.05$). The study concluded that the public sector is set up with the main aim of protecting the public interest. Public enterprises are major players in economic development. The study recommended that the government should sensitize the mind of their citizens to understand that public enterprises are a tool for national development, if managed well, it will create job and improve the standard of living.

2395-7492© Copyright 2017. The Author.

This is an open-access article under the CC BY-SA license
(<https://creativecommons.org/licenses/by-sa/4.0/>)

All rights reserved.

Author correspondence:

Happiness Ozioma Obi Anike,
Department of Management, University of Nigeria, Enugu Campus.
Email address: ozoma.obi-anike@unn.edu.ng

^a Department of Management, University of Nigeria, Enugu Campus

^b Department of Management, University of Nigeria, Enugu Campus

^c Department of Management, University of Nigeria, Enugu Campus

1. Introduction

The origin of public enterprises in developing countries can be traced from the colonial period when many European nations utilized public corporations as an arm of their government for seizing foreign territories (Okpata, 2000). Historically, the system of public enterprises began in Nigeria in 1888, when the British colonial Administration undertook the railway transport project in Nigeria from Iddo in the capital city of Lagos to the Hinterland. In recent times, globalization, liberalization and marketization and ongoing structural transformations of national economies contributed to an expansion of the private sector, on the one hand, and downsizing of the public sector including dismantling or divestment of public enterprises, on the other. Over the last century, the size and scope of government have expanded enormously. The pre- World War II expansion was driven by among other factors, the need to address the heavy toll on economic and social system brought by the great depression. Industrial economics expanded the welfare state and much of the developing world embraced state-dominated development strategies. The result was a tremendous expansion in the size of governments worldwide. Nigeria was no exception in terms of the belief that the state and public enterprises have a role to play in the country's development efforts. Public enterprises were created in most countries to accelerate economic and social development.

Public enterprises in Nigeria were established to propel socio-economic development and to guard against the control of the economy from foreign domination and exploitation. This accounts for why a larger proportion of the national budget has been voted for (Adeyemo, 2008). Public enterprise is the most appropriate institution which will enable the Government to achieve this most important end. Over the last few decades, public sector enterprises have not only enabled the country to acquire the commanding heights of the economy but have also been the prime mover of the country's technological progress, which has been studied and analyzed well in the Economics literature (Dewett, 1997). Similarly, public enterprises suffer from gross mismanagement and consequently resulted to inefficiency in the use of productive capital, corruption, and nepotism, which in turn weaken the ability of government to carry out its functions efficiently (World Bank, 1991).

The public sector has been assigned the important role of achieving our national objective of economic growth with social justice, generating larger social gains and strengthening country's economy by removing regional disparities and promoting balanced development in different parts of the country. The public sector plays a crucial role in effecting a rapid socio-economic transformation of the economy and hence the need to set up public sector enterprises has been widely recognized to bring about rapid economic growth in nations around the world (Mishra, 1997).

The public sector undertakings emerge very significantly in the Nigeria context by fulfilling various social obligations such as generation of employment for mass, provision of basic infrastructure and public utilities, protecting the consumers from being exploited etc., promoting backward regions of the country and achieving balanced regional development (Sundarapandian and Vidya 2011).

Statement of the Problem

Public enterprise can be considered as an organization established by the government under public-private law as a legal personality which is autonomous or semi-autonomous produces/provides goods and services on a full or partial self – financing basis, and which the government or public body or agency participate by way of having shares or representation in its decision-making structure. However, rising corruption, management inefficiencies overstaffing (without due regard to their economic viability many governments treated Public Enterprises as easy conduits for job creation and convenient vehicle for patronage distribution).

Public enterprises depending on the goal set out for each are expected to render some welfare services to the people, generate revenue with which to finance the developmental project, undertake certain infrastructural facilities such as ports and harbor and also provide employment opportunities. It is unfortunate that most of the enterprises established are underperforming, which have caused them not to live up to expectations. Because of poor managerial skills, lack of maintenance culture, corruption, Godfatherism, and tribalism, thus the study sought to examine the role of public enterprises in economic development in Nigeria.

Objectives of the Study

The main objective of the study is to find out the role of public enterprise in the economic development in Nigeria. The specific objectives are:

- a) To ascertain the role of public enterprises in improving the standard of living in Nigeria
- b) To determine the nature of the relationship between Public enterprises and employment generation
- c) To ascertain challenges encounter by public enterprises in contributing to national development

Research Questions

The following research questions are used in this study;

- a) What are the roles of public enterprises in improving the standard of living in Nigeria?
- b) What is the nature of the relationship between Public enterprises and employment generation?
- c) What are the challenges encountered by public enterprises in contributing to national development

Review of Related Literature

Conceptual Framework

Efange (1987) defines public enterprises or parastatal as institutions or organizations which are owned by the state or in which the state holds a majority interest, whose activities are of a business in nature and which provide services or produce goods and have their own distinct management. Obadan and Ayodele (1998) define public enterprises as organizations whose primary functions is the production and sale of goods and/or services and in which government or other government controlled agencies have no ownership stake that is sufficient to ensure their control over the enterprises regardless of how actively that control is exercised. Public enterprise can be defined as "an organization that is set up as a corporate body and as part of the governmental apparatus for entrepreneurial or entrepreneurial-like objectives. Public enterprises are organizations which emerged as a result of government acting in the capacity of an entrepreneur" (Obikeze and Anthony 2004:248).

Objectives of Public Enterprises

In any economy, the purpose of establishing a public enterprise has its own economic political and social objectives. In developing countries like Nigeria, the objectives of establishing public enterprise are:

- a) To achieve economic development in a balanced and organized manner by providing basic infrastructures
- b) To distribute consumption goods at a reasonable price by improving its quality.
- c) To establish large and non-profit oriented organizations which are beyond the capacity of private sectors
- d) To help generate national revenue.
- e) To earn foreign exchange.
- f) To generate employment opportunities
- g) To obtain economic, political and social objectives of the nation by mobilizing available capital and labor resources.
- h) To correct the unfavorable balance of payments by import substitution and export promotion (blogspot.com.ng/2010).

General Problems of Public Enterprises

The fundamental problems of public enterprises are the defective capital structures, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence, mismanagement, corruption and crippling complacency which monopoly engenders. 20 Public enterprises equally serve as platforms for patronage and promotion of political objectives and therefore even when their management has the will and the capability to work honestly, they will still

suffer from operational interference by political appointees. Furthermore, most of the leadership of public enterprises in Nigeria is corrupt and they feel only accountable to the political office holders who got them their jobs instead of serving the public interest (Ejiofor, 1984). But in most of Nigeria's public enterprises, the management teams are not appointed on merit, rather appointments are considered on political connections or primordial reasons. Consequently, the appointees lack the necessary skills, expertise or experience, and the management may end up mismanaging the enterprises. Similarly, board members of public enterprises may not possess any requisite skills to perform their functions because they are politicians who are usually compensated for their political patronage or contribution. Moreover, political instability and lack of continuity of developmental programmes affect public enterprises in Nigeria.

Public Enterprise Reinvention Process

Reinventing public enterprises in any country should begin with a comprehensive performance review and the formulation of a government strategy for reform. Governments are unlikely to be successful in restructuring public enterprises unless they develop a strategy that sets out a clear vision for how state-owned enterprises are expected to contribute to the development and defines clear missions and performance criteria for each public enterprise. In South Africa, for example, the government declared that the goal of public enterprises would be to "contribute to sustainable economic and social development," an objective that was "more likely to occur where there is a mixed economy, that is an economy that is responsive to market incentives within a framework of socially integrative institutional mechanisms," (SiviGounden, 2001:7). The vision for reform of Nigeria public enterprises at the macroeconomic level was to attract foreign direct investment, contribute to the reduction in public borrowing and assist the development of an economy that promotes industrial competitiveness and growth and increased domestic savings. The Nigerian government set social imperatives on public sector reform that included the need to increase employment and rationalize or develop new skills in the labor force as well as promote wider ownership and participation in the Nigeria economy.

2. Materials and Methods

The study was carried out using a descriptive survey design. Primary data was obtained through the use of interviews, questionnaire, and observations while Secondary data were obtained through books, journals, and the internet. The population of the study was 340 drawn from two public enterprises in the Enugu State of Nigeria (Enugu motor license). A sample size of 246 was determined by the population using Taro Yamane's sample size determination method. The instrument used for data collection was questionnaire structured in a Likert 5 point scale and validated with content validity of face to face approach. The reliability test was done using the test-retest method. The result gave a reliability coefficient of 0.92, indicating a high degree of consistency. The three hypotheses formulated were tested at 0.05 level of significance. Simple Linear Regression, Chi-square, and Pearson product moment correlation coefficient were used for the three hypotheses. A computer-aided Microsoft special package for social science (SPSS) was used to aid analysis.

Research Hypotheses

To achieve the objectives of this study, the following hypotheses were postulated.

- a) Public enterprises significantly improve the standard of living in Nigeria
- b) There is a positive relationship between Public enterprises and employment generation
- c) Corruption, defective capital structures, and mismanagement are challenges encountered by public enterprises in contributing to national development

Public enterprise theory

According to [Vickers and Yarrow \(1989\)](#), public enterprise theory is based on the assumption that the government seeks to maximize the economic welfare of a country. In terms of these authors, the rationale for this approach is that bodies such as public enterprises are themselves agents of the government and should, therefore, act in the best interest of the broader public. As in the case of private enterprises, an examination of public enterprise in terms of the principal-agent approach is necessary to assess whether the assumption that public enterprises act in the interest of the wider public provides a sound basis for analyzing its behavior. In a public enterprise situation, there are two distinct groups of public officials that are involved in monitoring the activity of the public enterprise. The first group of public officials is the politicians and the second group is the civil servants. The full monitoring hierarchy, however, consists of the general public, the elected political representatives, non-elected civil servants and managers of publicly owned enterprises ([Vickers and Yarrow, 1989](#)).

Vickers and Yarrow (1989) conclude their analysis of public enterprise in terms of the principal-agent approach by identifying four potential sources of sub-optimality in the control of state-owned enterprises. The first is the displacement of social objectives by political objectives; the second is a tendency for direct political intervention in managerial decisions; the third is the internal inefficiencies in the bureaucratic arrangements and, lastly, the inefficient levels of bureaucratic activity (1989).

Empirical Review

[Abah \(2013\)](#) conducted a study on assessment of cost performance and accountability in privatized public enterprises in Nigeria, to appraise the post-privatization cost and operating performance as well as accountability of some privatized public enterprises in Nigeria. A survey research design was adopted for the study, sixty-five internal audits and thirty-five accounting. Totally one hundred was randomly sampled and stratified among the staff of Oando Plc Enugu state. Three research questions and hypothesis tested at 0.05 percent level of significance guided the study. Frequencies, percentages, mean and standard deviation were employed to answer the research questions while Z-test statistics were used to test the hypothesis. It was found that privatization of uni-petrol has led to efficient and improved cost performance and proper accountability to shareholders. We conclude and recommend among others that effective cost performance and proper accountability to shareholders is very necessary for privatized public enterprises and that government should prove the entire necessary enabling environment for the privatized company to carry out their activities without unnecessarily increasing their cost [Muhammad and Rilwan \(2013\)](#), conducted a study on Management of Public Enterprises Through Public-Private Partnership in Nigeria. Public enterprises and the private sector cooperate in providing services and infrastructure through a variety of mechanisms. The level of performance and development of public enterprise in the country are very low due to corruption, management inefficiencies, overstaffing and inflation. The study, therefore, intends to highlight the different mechanisms of public-private partnership (PPPs) in the management of public enterprise including concessions, build-operate- and- transfer (BOTs) arrangement, joint ventures, and informal and voluntary cooperation as applied in some Latin American and Asian countries. The paper recommends that the government should clearly identify goals and objectives of public-private partnerships and embody them in an official set of laws, develop a strategy for a management plan for public-private partnerships and create employment protection measures for current government employees in an organization that will go into public-private partnerships.

3. Results and Discussions

The data obtained from the field were presented and analyzed with descriptive statistics to provide answers for the research questions while the corresponding hypotheses were tested with linear regression, Pearson product moment correlation coefficient at 0.05 alpha level.

What are the roles of public enterprise in improving the standard of living in Nigeria?

Table 1
Coded Responses on roles of public enterprise in improving the standard of living in Nigeria

s/no	Questionnaire items	S. Agree / Agree		Disagree / S. Disagree		Undecided		Total (Freq)
		Freq	%	Freq	%	Freq	%	
1	Public enterprise generates job opportunities which improve the standard of living?	210	91	13	6	7	3	230
2	Do citizens meet their basic amenities through public enterprise?	216	94	10	4	4	2	230
		426		23		11		460

Source: Fieldwork 2016

According to the table (1) based on aggregate response 426(93%) indicated strongly agree, 23(5%) indicated disagree while 11(2%) indicated undecided. This implies that public enterprises significantly improve the standard of living in Nigeria.

H₀₁: Public enterprises significantly improve the standard of living in Nigeria.

Table 2
SPSS result of the public enterprises significantly improve the standard of living in Nigeria

Particulars	R	R ²	Adj. R ²	DW	Standard Coefficients		F	Sig.
					Beta	T- Value		
firms	0.703 ^(a)	0.698	0.697	.569	0.703	29.976	898.558	0.000

Source: SPSS

Note:

R = Correlation Coefficient or Beta

R² = Coefficient of Determination

Adj. R² = Adjusted Coefficient of Determination

DW = Durbin Watson (d) test statistic

T-value = Student t- test Statistic

F = F- test statistic

Model Equation PE = 0.233 + 0.760SL

The result indicates that public enterprises significantly improve the standard of living in Nigeria as t = 29.976 and which is above the rule of thumb positivity of 2 and the coefficient of public enterprises is (0.233). The variation from the model is explained by the model as indicated by the coefficient of the determination (r²) value of 69.8%. Also, the result indicates that there is a positive relationship between public enterprises and standard of living in Nigeria as indicated by r-value of 0.703 which is positive as shown by the beta value of 0.703. thus public enterprises significantly improve the standard of living in Nigeria.

What is the nature of the relationship between Public enterprises and employment generation?

Table 3.
Coded Responses on Public enterprises and employment generation

s/no	Questionnaire items	S. Agree /Agree		Disagree /S.Disagree		Undecided		
		Freq	%	Freq	%	Freq	%	Total (Freq)
3	Public enterprises have reduced the rate of unemployment in Nigeria?	200	87	9	4	21	9	230
4	Employment generation can be achieved through maintains of the public enterprise?	207	90	14	6	9	4	230
Total		407		23		30		460

Source: fieldwork 2013

According to the table (3) based on aggregate response 407(88%) indicated strongly agree, 22(5%) indicated disagree while 30(7%) indicated undecided. This implies that there is a positive relationship between Public enterprises and employment generation.

Ho₂: There is a positive relationship between Public enterprises and employment generation

Table 4
Descriptive Statistics Public enterprises and employment generation

	Mean	Std. Deviation	N
Public enterprises	2.1455	1.26805	230
Employment generation	1.8273	1.23667	230

Table 5
Correlations Public enterprises and employment generation

		Public enterprises	Employment generation
Public enterprises	Pearson Correlation	1	.596**
	Sig. (2-tailed)		.000
	N	230	230
Employment generation	Pearson Correlation	.596**	1
	Sig. (2-tailed)	.000	
	N	230	230

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4 shows the descriptive statistics of the public enterprise and employment with a mean response of 2.1455 and std. deviation of 1.26805 for public enterprise and a mean response of 1.8273 and std. deviation of 1.23667 for employment generation and a number of respondents (230). By careful observation of standard deviation values, there is not much difference in terms of the standard deviation scores. This implies that there is about the same variability of data points between the dependent and independent variables.

Table 5 is the Pearson correlation coefficient for public enterprise and employment generation. The correlation coefficient shows 0.596. This value indicates that correlation is significant at 0.05 level (2tailed) and implies that there is a significant positive relationship between public enterprise and employment generation ($r = .596$). The computed correlations coefficient is greater than the table value of $r = .195$ with 228 degrees of freedom ($df = n-2$) at alpha level for a two-tailed test ($r = .596, p < .05$). However, since the computed $r = .905$, is greater than the table value of .195 we reject the null hypothesis and conclude that there is a positive relationship between Public enterprises and employment generation ($r = .596, P < .05$).

What are the challenges encounters by public enterprises in contributing to national development ?

Table 6
Coded Responses on Corruption, defective capital structures, and mismanagement are challenges encounters by public enterprises in contributing to national development

s/no	Questionnaire items	S.Agree /Agree		Disagree /S.Disagree		Undecided		Total (Freq)
		Freq	%	Freq	%	Freq	%	
5	Corruption hinders public enterprise in contributing to national development	215	93	9	4	6	3	230
6	Nigeria have not achieved national development because of mismanagement that exists in our public enterprise	220	96	5	2	5	2	230
7	Defective capital structure negatively affect public enterprise	213	93	7	3	10	4	230
Total		648		21		21		690

Source: fieldwork 2013

According to the table (6) based on aggregate response 648(94%) indicated strongly agree, 21(3%) indicated disagree while 21 (3%) indicated undecided. This implies that corruption, defective capital structures, and mismanagement are challenges encounters by public enterprises in contributing to national development.

H₀₃: Corruption, defective capital structures, and mismanagement are challenges encounters by public enterprises in contributing to national development

Table 7
Chi-Square Tests Computed from the Frequency Cross Tabulation

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	68.270(a)	4	.006
Likelihood Ratio	18.911	4	.004
Linear-by-Linear Association	.441	1	.507
N of Valid Cases	690		

Table 7 is the output of the computed Chi-Square values from the cross tabulation statistics of observed and expected frequencies with the response options of agree and disagree based on the responses of the research subjects. Pearson Chi-Square computed value ($X^2_c = 68.270$) is greater than the Chi-Square tabulated value ($X^2_t = 9.49$) with 4 degrees of freedom (df) at 0.05 level of alpha ($X^2_c = 68.270$, $p < .05$)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Chi-Square value is greater than the tabulated Chi-Square value otherwise accept the null hypothesis.

Decision

Since the Pearson Chi-Square computed $X^2_c = 68.270$ is greater than the Chi-Square table value $X^2_t = 9.49$, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that corruption, defective capital

structures, and mismanagement are challenges encounters by public enterprises in contributing to national development.

Summary of Findings

At the end of the study, the following findings were made:

- a) Public enterprises significantly improve standard of living in Nigeria ($r = 0.703$; $t = 29.976$; $F = 898.558$; $p < 0.05$).
- b) There is a positive relationship between Public enterprises and employment generation ($r = .596$, $P < .05$).
- c) Corruption, defective capital structures and mismanagement are challenges encountered by public enterprises in contributing to national development ($X^2_c = 68.270 > X^2_t = 9.49$, $p < 0.05$).

4. Conclusion

The study concluded that the public sector is set up with the main aim of protecting the public interest. Public enterprises are major players in economic development, many public enterprises also suffered from technological shortcomings imported through foreign aid or soft loans from abroad. Many of the public enterprises were either equipped with low or second-grade machinery contributing to low capital output Ratio or were established without due regard to their economic and financial sustainability.

Recommendations

Based on the findings of this study and the conclusions drawn therefrom, the following recommendations were made.

- a) There is the need to implement with seriousness, the reforms of public enterprises through Public Private Partnership.
- b) There is a need to formulate a comprehensive National implementation framework for Public-Private Partnership in a timely, transparent and proactive manner.
- c) The government should sensitize the mind of their citizens to understand that public enterprises are a tool for national development, if managed well, they will create job and improve standards of living.

Conflict of interest statement and funding sources

The author(s) declared that (s)he/they have no competing interest. The study was financed by the authors.

Statement of authorship

The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.


Acknowledgments

The authors thank all supporters at completing this paper to be published on science scholar publishing. In term of the editorial team on International Research Journal of Management, IT & Social Sciences.

References

- Abah, O., Rossnagel, J., Jacob, G., Deffner, S., Schmidt-Kaler, F., Singer, K., & Lutz, E. (2012). Single-ion heat engine at maximum power. *Physical review letters*, 109(20), 203006.
- Abdullahi, M., & Usman, R. N. (2013). Management of public enterprises through public private partnership in Nigeria. *Mediterranean Journal of Social Sciences*, 4(15), 15.
- Adeyemo, D. O., & Salami, A. O. (2008). A review of privatization and public enterprises reform in Nigeria. *Contemporary Management Research*, 4(4).
- Dewett, K. K., Varma, J. D., & Sharma, M. L. (1992). Indian Economy, New Delhi, S. Chand and Company Ltd.
- Efange, P. (1987). An overview of public and private enterprises in Africa: Role, status, scope, performance and challenges for implementing the Lagos Plan of Action. In *Proceedings of the Africans Association of Public Administration and Management. Sixth Round Table Conference held in Blantyre, Public Enterprises Performance and the Privatization Debate: A Review of the option for Africa*.
- Ejiofor, P. O. N. (1984). Making our Organisations Perform. Anambra State Public Service lecture Series 2. Enugu: Government Printer.
- Mishra, J. (1997). Changing dimension of public sector in India.
- Obadan, M. I., & Ayodele, A. S. (1998). *Commercialization and privatization policy in Nigeria*. National Centre for Economic Management.
- Obikeze, O. S., & Obi, E. A. (2004). *Public administration in Nigeria: A developmental approach*. Bookpoint.
- SiviGounden, K. (2001). Restructuring of State Owned Enterprises – A Critical Element of Economic Restructuring in South Africa, speech delivered at Leadership Center, University of Kwazulu-Natal, South Africa, and March 7.
- Vaidyanathan, S., & Sundar, V. (2011). The role of public sector enterprises in rural development and social welfare. *International Journal of Managing Public Sector Information and Communication Technologies*, 2(1), 23.

Biography of Authors

	<p>Dr. (Mrs.) Happiness Ozioma Obi-Anike is currently with the Department of Management, Faculty of Business Administration, University of Nigeria, and Enugu Campus. She holds a master's degree and a Doctor of Philosophy Degree in Management Sciences as well as a Bachelor of science degree in Business Administration. She has written both local and international journal in different reputable journals. She is a management consultant with special interest in Human Resource Management, corporate governance, and organizational sustainability.</p> <p>Email: ozroma.obi-anike@unn.edu.ng</p>
	<p>Dr.(Mrs.) Chikodili Nkiruka Okafor currently with the Department of Management, Faculty of Business Administration, University of Nigeria, and Enugu Campus. She holds a master's degree and a Doctor of Philosophy Degree in Management. She has written both local and international journal in different reputable journals. She is a Management consultant with special interest in Strategy Management and Entrepreneurship development.</p> <p>Email: chikodili.okafor@unn.edu.ng</p>
	<p>Nnaemeka Beneath Udejinta (Ph.D.- Management) Holds Doctor of Philosophy Degree in Management, Master of Business Administration. He is interested in Management science research with particular interest in Corporate governance.</p> <p>Email: emekaudejinta@yahoo.com</p>